

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 IO-13 ISO-00 L-03 FRB-03 OMB-01

ITC-01 SP-02 ICA-11 AGRE-00 AID-05 CIAE-00

COME-00 INR-10 LAB-04 NSAE-00 OIC-02 SIL-01

STR-07 TRSE-00 CEA-01 SS-15 /100 W

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R 081032Z JUN 78

FM AMEMBASSY BRUSSELS

TO SECSTATE WASHDC 7122

INFO ALL EC CAPITALS

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USEEC

PARIS ALSO FOR OECD

E.O.11652: N/A

TAGS: UNCTAD, ETRD, EPAP, EEC

SUBJECT: EC POSITION ON UNCTAD NATURAL RUBBER NEGOTIATIONS

REF: (A) 77 BRUSSELS 18716 (B) BRUSSELS 8183

(C) GENEVA 935 (D) GENEVA 1490

1. SUMMARY: LEOPOLDO GUINTI, EC COMMISSION OFFICIAL IN THE DIRECTORATE GENERAL FOR EXTERNAL AFFAIRS (DG-I) RESPONSIBLE FOR RUBBER, INFORMED THE MISSION THAT THE COMMISSION PREPARED A NEW PAPER WITH RECOMMENDATIONS ON OPTIONS FOR A POSSIBLE INTERNATIONAL COMMODITY AGREEMENT ON NATURAL RUBBER. HE SAID THAT AT A MEETING ON JUNE 6 OF THE EC COUNCIL'S COMMODITIES WORKING GROUP, THE MEMBER STATES ACCEPTED THE COMMISSION'S CONCEPT THAT A BUFFER STOCK OF AROUND 400,000 TONS SHOULD ASSURE THAT RUBBER PRICES ARE STABILIZED WITHIN A RANGE AROUND AN AVERAGE

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PRICE WHICH SHOULD REFLECT LONG-TERM TRENDS. THE MEMBER STATES GENERALLY OPPOSED A COMMISSION PROPOSAL THAT, IN CASE OF IMPORTANT PRICE MOVEMENTS, THIS STOCK CAN BE AUGMENTED BY 100,000 TONS, BUT MOST SEEMED TO GO ALONG WITH THE CONCEPT OF SUPPLY RATIONALIZATION MEASURES IN CASE OF EMERGENCY. AT THE JUNE 6 MEETING, THE MEMBER STATES DECIDED TO POSTPONE FORMAL CONSIDERATION OF THE

COMMISSION'S PROPOSED OPTIONS UNTIL THEY EXPLORE THE VIEWS OF OTHER CONSUMERS AT THE JUNE 12-16 MEETING IN GENEVA. THE COMMISSION'S PAPER WILL NOT BE PRESENTED AT THE GENEVA MEETING BUT MAY BE DRAWN ON DURING THE DISCUSSIONS. END SUMMARY.

2. THE EC COMMISSION HAS PREPARED A NEW PAPER FURTHER REFINING ITS PROPOSALS TO THE EC COUNCIL REGARDING A COMMON POSITION ON A NATURAL RUBBER ICA (REFS A AND B). ITS RECOMMENDATIONS TO THE COUNCIL INCLUDE THE FOLLOWING ELEMENTS:

(A) THE RUBBER ICA SHOULD BE BASED UPON A BUFFER STOCK TO STABILIZE PRICES WITHIN A ZONE AROUND A SINGLE AVERAGE PRICE WHICH SHOULD REFLECT THE LONG-TERM TREND.

(B) A BUFFER STOCK OF 400,000 TONS MADE UP OF DIFFERENT GRADES OF RUBBER CORRESPONDING TO THE PROPORTION OF THESE GRADES ON THE RUBBER MARKET IS A REASONABLE BASIS FOR NEGOTIATIONS.

(C) RUBBER STOCKS SHOULD BE HELD WHERE THEY CAN BE MOST EFFICIENTLY AND ECONOMICALLY HANDLED, INCLUDING POSSIBLY IN CONSUMER COUNTRIES.

(D) FINANCING THE BUFFER STOCK SHOULD BE BASED UPON LIMITED OFFICIAL USE

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DIRECT CONTRIBUTIONS (NOT IMPORT OR EXPORT LEVIES) AND SHOULD BE SHARED EQUALLY BETWEEN PRODUCERS AND CONSUMERS. THE COST OF THIS STOCK IS ESTIMATED AT \$274 MILLION, OF WHICH \$137.5 MILLION WOULD BE BORNE BY CONSUMERS, INCLUDING \$31.6 MILLION BY THE EC.

(E) THE INITIAL AVERAGE RUBBER STABILIZATION PRICE WOULD BE BASED UPON THE 4 TO 5 YEAR AVERAGE FOR THE APPROPRIATE QUALITY OF RUBBER. AS LONG AS RUBBER PRICES REMAIN WITHIN A ZONE 10 PERCENT ABOVE AND 10 PERCENT BELOW THE STABILIZATION PRICE, THE BUFFER STOCK MANAGER WOULD NOT INTERVENE ON THE MARKET. THE LEVEL OF PRODUCTION COSTS OF NATURAL RUBBER OR THE PRICE OF SYNTHETIC RUBBER SHOULD NOT BE TAKEN INTO ACCOUNT IN THE RUBBER ICA, AND PRICE INDEXATION SHOULD BE AVOIDED.

(F) WHILE IT IS EXPECTED THAT THE BUFFER STOCK SYSTEM SHOULD SUFFICE TO STABILIZE THE PRICE OF NATURAL RUBBER, SPECIAL CONTINGENCY MEASURES TO REINFORCE THIS SYSTEM SHOULD BE ENVISAGED. THESE MIGHT INCLUDE:

(1) HAVING RUBBER CONSUMERS, IN THE EVENT OF A SHARP FALL

OF PRICES, ARRANGE FOR LOANS TO FINANCE THE PURCHASE BY
THE BUFFER STOCK OF AN ADDITIONAL 100,000 TONS OF RUBBER.

(2) IN THE EVENT OF A JUMP OF PRICES, PRODUCERS WOULD BE
OBLIGATED TO SUPPLY AN ADDITIONAL 100,000 TONS OF RUBBER
TO THE BUFFER STOCK WHICH WOULD SELL IT ON THE OPEN MARKET
AND RETURN THE PROCEEDS TO THE PRODUCERS.

(3) THE PROPOSED ICA RUBBER COUNCIL COULD, BY A QUALIFIED
MAJORITY (E.G., TWO-THIRDS) ADOPT SUPPLY RATIONALIZATION
MEASURES, SUCH AS EXPORT OR PRODUCTION QUOTAS OR APPRO-
PRIATE ACTIVITIES TO INCREASE RUBBER PRODUCTION.

(4) THE RUBBER STABILIZATION PRICE COULD BE CHANGED IF IT
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APPEARS THAT IT IS NOT CONSISTENT WITH ACTUAL SUPPLY AND
DEMAND FOR NATURAL RUBBER AND IS RESULTING EITHER IN A
DEPLETION OF THE BUFFER STOCK OR PRESSURE TO INCREASE IT.

3. GIUNTI NOTED THAT AT THE MEETING OF THE EC COUNCIL'S
COMMODITY WORKING GROUP ON JUNE 6, THERE WAS GENERAL AGREE-
MENT ON THE DESIRABILITY OF A BUFFER STOCK-BASED NATURAL
RUBBER ICA WITH THE PRICE STABILIZED AROUND A SINGLE
AVERAGE PRICE WHICH COULD BE ADAPTED TO LONG-TERM TRENDS.

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THE MEMBER STATES, HOWEVER, WERE NOT PREPARED TO COMMIT THEMSELVES ON THE SIZE OF THE POSSIBLE RUBBER FUND, THE ACTUAL EXTENT OF THE ZONE ABOVE AND BELOW THE STABILIZATION PRICE AT WHICH THE BUFFER STOCK WOULD NOT INTERVENE, AND OTHER ELEMENTS OF THE COMMISSION'S PROPOSAL. SEVERAL STATES OPPOSED RECOURSE TO SUPPLY RATIONALIZATION MEASURES ALTHOUGH MOST APPEARED TO ACCEPT SUCH MEASURES IF THEIR USE WERE RESTRICTED TO EMERGENCIES, NOT AS A ROUTINE MATTER. THERE WAS ALSO CONSIDERABLE SKEPTICISM AS TO WHETHER, IN THE EVENT OF A SUDDEN PRICE RISE, THE RUBBER PRODUCERS WOULD BE WILLING TO CONTRIBUTE 100,000 TONS TO THE BUFFER STOCK WHICH THEY COULD SELL DIRECTLY ON THE OPEN MARKET AT A HIGH PRICE.

4. GIUNTI, WHO WILL BE REPRESENTING THE EC COMMISSION AT THE JUNE 12-16 MEETING ALONG WITH OSWALD VAN WAUWE FOR THE COMMISSION'S INDUSTRY DIRECTORATE GENERAL, EXPRESSED THE HOPE THAT HE COULD MEET WITH MEMBERS OF THE US DELEGATION TO THE MEETING BEFORE THE FORMAL OPENING SESSION ON MONDAY MORNING, JUNE 12. HE WOULD LIKE A BRIEF DISCUSSION OF TACTICS AND PROCEDURES FOR THE MEETING, PARTICULARLY

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IN VIEW OF SOVIET AND COMMUNIST CHINESE ATTENDANCE. HE WOULD ALSO LIKE TO CONSIDER BRIEFLY SUCH SUBSTANTIVE MATTERS AS THE US VIEW AS TO HOW THE STABILIZATION PRICE CAN BE CHANGED TO REFLECT LONG-TERM TRENDS AND A REPORTED US WILLINGNESS TO ACCEPT A NATURAL RUBBER FLOOR PRICE, VIRTUALLY INDEPENDENT OF THE PRICE STABILIZATION MECHANISM, IN ORDER TO SATISFY THE DESIRE OF SOME OF THE SMALLER AND POORER RUBBER PRODUCING LDC'S.

5. GIUNTI, AS HE HAS IN THE PAST (REFS B AND D), EXPRESSED THE HOPE THAT THE COMMISSION COULD OBTAIN US PRELIMINARY REACTIONS TO THE COMMISSION'S PROPOSALS AS WELL AS THE USG'S OWN VIEWS ON A POSSIBLE RUBBER ICA. GIUNTI SAID HE WOULD BE ARRIVING LATE IN THE EVENING OF JUNE 11 AT THE HOTEL REX AND COULD BE REACHED THERE THE MORNING OF THE TWELFTH OR AT THE OFFICE OF THE EC COMMISSION IN GENEVA AFTER 9:00 A.M. HINTON

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